

Intelligence (5)

IC-75-2458

5 August 1975

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MEMORANDUM FOR:

SUBJECT : Economic Intelligence Report

1. This is the beginning of the first draft; the section on "The Consumers" is not finished. You will recall that there is a following section on the management apparatus, which will include the EIC. Finally, there is to be a section on Collection and a Part III on areas of possible improvement.

2. Even though this report is a long way from being finished, it would benefit from your review. Also, I would appreciate any thoughts you have in points to be stressed in the parts yet to be written.

3. I will see you later this week whenever you can sandwich in a few minutes.

Thank you,

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First Draft of Report

Economic Intelligence--A Brief Survey of Production,
Collection and Consumers

Introductory Note

This paper has been prepared for the use of White House staff members concerned with defining the role of economic intelligence in national security formulation and the priority to be accorded to the collection of sensitive economic data.

What is economic intelligence? The most useful definition is that it is the product of economic intelligence analysts, the lion's share of which has been produced to support US national security policy formulation and execution. These concerns now embrace domestic policies as well as international ones. To illustrate, the United States has been lagging far behind other leading exporting nations in investing in new manufacturing plants (private capital formation as a proportion of GNP); the serious consequences of this comparative aging of US production facilities has

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led the Chairmen of the Economic Policy Board to point out the need to overhaul our domestic tax programs.

The focus and emphasis of economic intelligence has changed radically over time, depending upon the needs of US policymakers. Economic intelligence embraces the traditional measures of a nation's output (GNP) and its allocation--consumption of goods and services by the nation's people; investment in productive facilities, etc.; and the expenditures on governmental services, including military. From this level, strategic capabilities of foreign nations have been measured in the broad. Narrower studies focus on individual industries in key countries, transportation (air, land, and sea), foreign trade, balances of payments and reserves, international monetary developments, commodity production and other segments of a nation's or a region's economic makeup which impinge upon national security concerns.

In the past, at times a very large share of total economic intelligence output has been military--economic in nature--measuring the output of the military industries, costing of strategic weapons systems and relating these data to estimates of capabilities, as well as highly focused analyses of individual transport routes, such as the Ho Chi Minh trail.

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Today, as the United States becomes increasingly a have-not nation, dependence on overseas supplies of commodities such as oil and bauxite raises a host of new potential vulnerabilities to US domestic production, employment, and national security. There is not only a vital need to import, but to export as well, so as to earn the necessary foreign exchange to balance our international accounts and protect the dollar. (One Commerce Department estimate places the 1985 export need at about \$230 billion, compared to about \$40 billion in 1970.) Hence, the agenda of economic analysts in 1955 bears little relationship to the work program of 1975, and subjects such as intelligence support to key trade negotiations, including those conducted under GATT auspices, and an early warning system on foreign government plans to impede the ability of US manufacturers to compete abroad, become matters of national security concern.

This change in focus has raised questions of the relation of economic intelligence today to national security in some minds, who rightly recall that similar economic analysis traditionally has been concerned with private, domestic considerations, such as stock market investment. But our new (and rapidly growing) international economic dependence

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gives rise to threats to national security which are fundamental, as the Arab oil embargo and the flood of petrodollars into the West, including the US, (to invest in what?) clearly shows today. In recognition of the heightened importance of economic affairs in national security, the Murphy Commission recently concluded (Chapter 5, p. 68), "The need for effective research, analysis, and intelligence in the foreign economic field can hardly be overemphasized." While stated in other words, the gist of this conclusion also appears in the findings of the President's Foreign Intelligence Advisory Board (PFIAB).

The economic analyst's agenda of key intelligence questions raised by national security policymakers almost certainly will be much different in 1985 than in 1975. Hence, the attempt to sharply define "economic intelligence" is pretty much a will o' the wisp. More important is to realize that since World War II, economic intelligence has made important and at times crucial contributions to the formulation and execution of foreign policy, and almost certainly it will continue to do so.

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PART I

A BRIEF HISTORICAL BACKGROUND

A. The Early Postwar Years

The expectation that the successful conclusion of World War II would bring "peace in our time" proved to be very short-lived. Within months, growing communist intransigence in Europe had laid the foundations for the cold war, an East-West confrontation of utmost seriousness. In 1948, Soviet military forces barred the surface movement of goods (including U.S. military supplies), between Berlin and West Germany. Hungary and Czechoslovakia were taken over by communist regimes.

Consequently, it became necessary for the U.S. Government to reconstitute some of the wartime intelligence apparatus that had been dismantled; it did this in part through the formation of the Central Intelligence Agency in 1947. Requests by policy and action officials for economic intelligence support were not long in coming. The Commerce Department requested aid, for example, in drawing up a list of strategic commodities to be embargoed for shipment to the Soviet Bloc, as the USSR and its allies were then identified. This was the start of a widespread interagency effort on intelligence support of trade controls.

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Perhaps as an indication of its importance, the first postwar directive on economic intelligence was issued directly by the National Security Council, rather than by the Director of Central Intelligence (NSCID No. 4, 13 January 1948). This directive did not attempt to assign dominant production responsibility to a single agency, but instead recognized the need of many agencies to produce economic intelligence in support of their departmental needs.

When the Korean War broke out in 1950, it brought with it not only direct U.S. military participation, but also the prospect of a broad US conflict with the Soviet Bloc. In 1950, the National Security Council directed the CIA to make a study of foreign intelligence requirements and facilities, and to make plans and arrangements for meeting these requirements (NSC Action 282). The NSC directive expanded in NSCID 15, led to the establishment of a major new economic intelligence production unit in the CIA to operate as a service of common concern. In order to meet the dominant national policy needs, the new research effort was directed to the economics of the USSR and its allies. Since the availability of reliable data needed to measure Soviet capabilities and vulnerabilities was very limited the research manpower requirements were not only very large, but were also beyond

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the resources then available research manpower requirements were not only very large, but were also beyond the resources then available to the intelligence agencies. At the same time, the Economic Intelligence Committee was formed (NSCID 15, 13 June 1951) and given a coordinating role within the intelligence community.

It was not long before the vital contribution that economic intelligence can make to national security policy formulation was proven. The case arose in 1951, when President Truman and Prime Minister Churchill became involved in a controversy over China trade and transport, which was crucial to deciding the effectiveness of a possible naval blockade of the China coast. The economic research performed at that time included the sources, types and tonnages of goods being imported into China, the routes used, and the capabilities of the Trans-Siberian Railroad to supply a blockaded China with essential imports. The results of this research was embodied in various National Intelligence Estimates and in the detailed EIC-R1 report series. It proved to be a major factor in settling the US-UK policy dispute--the blockade was not carried out.

This brief review of the early contributions of economic intelligence to national policy is not intended to be exhaustive.

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Nevertheless, it is helpful to recall some of those papers which had a significant influence on important policy officials in Washington. While many of these were initiated by CIA, they frequently could be classified as community projects. Example:

-- NIE-59, Probable Effects of the Severance of East-West Trade, April 1953, the gist of which was that the Soviet Bloc could adjust to the loss of Western exports, although at some increased costs. This analysis, a community effort under CIA leadership, probably helped to erase exaggerated ideas of the effectiveness of trade controls as an economic warfare device against the USSR.

-- Various NIEs and research papers dealing with Soviet capabilities (an annual general overview plus others addressed to specific subject) which explained how the USSR could be such a formidable military challenge to the United States, even though the Soviet economy was less than half the size of the American one.

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-- An EIC community series of reports on Soviet economic activities in the developing world, which had become a significant weapon of Soviet foreign policy.

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B. Economic Intelligence and Vietnam

For at least the first ten post World War II years, the economic intelligence community was focused very largely on basic research of the communist countries, particularly the USSR. The overriding reason for this effort was (and is) that the strength and vigor of their economies are basic determinants of communist military posture and the consequent threat to US security interests. After the initial decade, increasing and urgent demands for intelligence support on other geographic regions required the diversion of economists from in-depth assessment of communist economic strengths and weaknesses. Extensive computerization of data and the application of computer-based analysis was one major technique which allowed in-depth research to continue at

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respectable levels in the USSR and China despite growing demands for coverage elsewhere. Nowhere were these demands more insistent than in the wake of US involvement in Vietnam, or more broadly, in the Indochina War.

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However, the agenda of reports on Indochina grew rapidly to include the full gamut of military-economic studies--

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vulnerability analysis of North Vietnam's economic sectors and the economy as a whole to blockade, estimates of civilian casualties resulting from US air strikes against North Vietnam, and the probing of the Viet Cong economy and its vulnerabilities (to what extent and how was it meeting its logistic and manpower needs in the South through elaborate tax, conscription, and requisition systems?). With DIA economic analysts fully occupied with the war and State Department capabilities quite limited, the increasing burden of military and military-related studies fell on CIA economic research shops. Some of their studies, such as bomb damage assessment, were joint CIA/DIA products. Others, such as order of battle assessments of communist strengths, were often independently produced by CIA.

Why were the economists called upon to turn out these studies? In retrospect, it would seem that many intelligence problems associated with the Vietnam war fell more logically to the economic analysts than to the military weapons experts. The former were sufficiently flexible to develop and apply the appropriate analytical techniques. Research methods used earlier for assessing strengths, weaknesses and capabilities of Iron Curtain countries stood the analysts in good stead.

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A major requestor early (1965) in the war had been the Interdepartmental Vietnam Coordinating Committee, chaired by the State Department's Ambassador Unger. Later, requests came from the Secretaries of Defense, and most prominently, from the President himself. In the first half of 1967, there were seven Presidential requests which came to CIA's economic shop, which produced, for all requestors, a total of 84 reports in this time period, absorbing about 25 percent of available research manhours.

A perennial question raised by consumers was that of North Vietnam's vulnerability to blockade. The answer, given with increased sophistication over a ten year period, was that North Vietnam's economy consisted of a thin layer of industry spread over a thick base of subsistence agriculture, and with essential imports of military goods absorbing only a fraction of available land route capacity, North Vietnam was relatively invulnerable to blockade. This response was never received with pleasure at senior policymaking levels, since there were always vocal advocates of interdiction. Indeed, negative findings on proposed economic warfare measures (such as sanctions against Allende's Chile) were generally the rule, and the subsequent policy response was equally flat.

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During 1970 and 1971, the Vietnamese Special Study Group in CIA prepared a series of special reports (the NSSM 99 series) at the request of Dr. Kissinger, who later revealed that this series was used by President Nixon as his Vietnamese policy proceeded. There were parallel responses by the Departments of State and Defense.

The demands on economic research shops continued after the cease-fire in Vietnam. CIA was tasked with producing a weekly series of logistic and manpower development reports, and in conjunction with DIA analysts, comprehensive studies of North Vietnamese order of battle.

C. Research Manpower-A Declining Resource

One of the paradoxes of the postwar history of economic intelligence is that, in the face of an increasing burden of consumer demands, professional resources declined sharply. As Table I below shows, between 1953 and 1973, economic research strength within the intelligence community was cut sharply--roughly 50 percent between 1953 and 1973. These data are based upon surveys taken by the Economic Intelligence Committee. The 1973 data unfortunately are incomplete. Because of the growing diversion of analyst resources to

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The National Security Council, (NSC), chaired by the President, on which the Vice-President and the Secretaries of State and Defense sit, has been the top advisory group to the President on the integration of domestic, foreign and military policy since 1947. Its focus is largely military and political rather than economic. The NSC is served by the National Security Council Intelligence Committee, which has an Economic Intelligence Subcommittee (EIS), chaired by the Assistant Secretary of the Treasury for International Affairs. The EIS is essentially a committee of senior customers, whose needs for economic intelligence support it considers. The composition of the EIS is very broad. In addition to Treasury, State, Commerce, Agriculture, Defense, ERDA, the Ex-Im Bank, CEA, OSTR, and the NSC staff attend meetings, as does the Chairman of the USIB Economic Intelligence Committee.

The network of key officials concerned with international economic policy, most of whom are not members of the USIB, is briefed daily by a combined Treasury-CIA team. This includes senior officials of the White House staff (CEA, OSTR, CIEP and Presidential Assistants), the Department of Commerce, Federal Reserve Board and the Federal Energy

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Administration. Briefings cover current economic developments of national policy interest as a rule, rather than the findings of in-depth studies. This briefing practice has the great value of feedback to the intelligence producer, not only questions on the subject matter presented, but information on which specific policy matters will be coming up for decision in the near future. It is a major step in overcoming one of the major difficulties in providing intelligence support, that of determining the senior policy officials' near-term agenda. Or as has been remarked, what makes the perfect policymaker is what makes the perfect

girl--accessibility.

Support from the economic intelligence producers, particularly from CIA/OER, can come in the form of a report or oral briefing direct to a senior policy official, or as a special study to a staff officer, who then incorporates it with his own material to produce the product desired by, say, a Cabinet officer. Since CIA/OER serves as an office of common concern, and since its staff is relatively large, the lion's share of requests for intelligence support falls on that shop. (See table below for the volume of such requests.) This is not to say that the economic research shops in Treasury and Commerce, in particular, do not field a large volume of monetary and trade-related requests from their own resources.

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The preparation of Key Intelligence Questions (KIQs) has been a major forward step in specifying the likely needs of policy officials for intelligence support over the coming year. KIQs are prepared by the Director of Central Intelligence in consultation with senior policy officers of the principal executive departments. They are ratified by the National Security Council Intelligence Committee, which is chaired by Secretary Kissinger. By definition, all KIQs are of importance. They serve not only to provide collection guidance, but also are valuable as guides to economic research. Under EIC guidelines, the relevant KIQs have been refined into specific economic questions.

Another channel for the furnishing of intelligence support is the National Intelligence Officer for Economics and Energy (NIO/E). This senior staff officer is the DCI's representative for economic intelligence affairs, both with respect to production and collection. He can call upon CIA components for contributions to studies on economic subjects by national policy importance, as well as the other members and associate members of the Economic Intelligence Committee, on which 24 departments and agencies are now represented. Other National Intelligence Officers with supervisory

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responsibilities for geographic areas, such as Western Europe or Southeast Asia, can also tap CIA's or the Community's intelligence production resources for contributions. The NIO structure usually is used for high-level support--preparation of briefings for the President, the Secretary of State, etc.